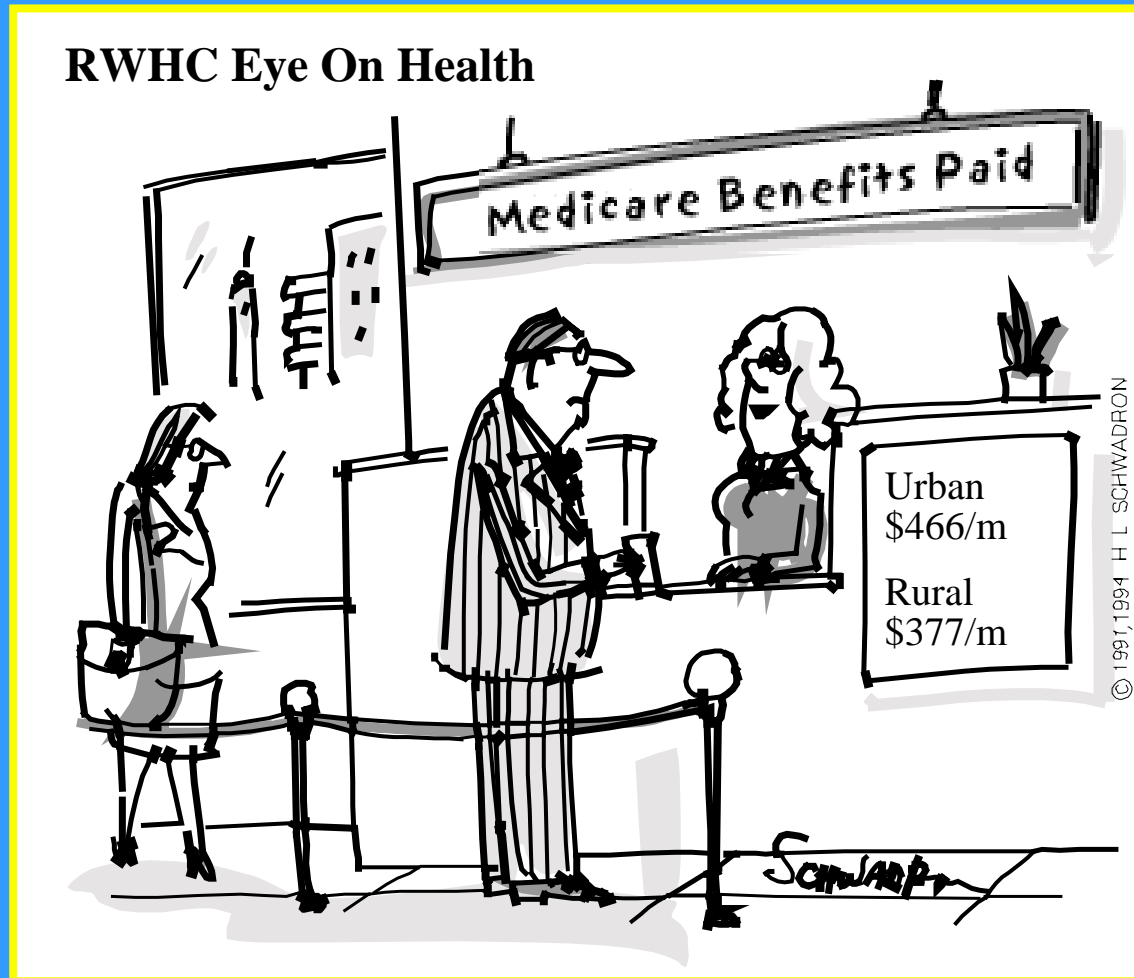


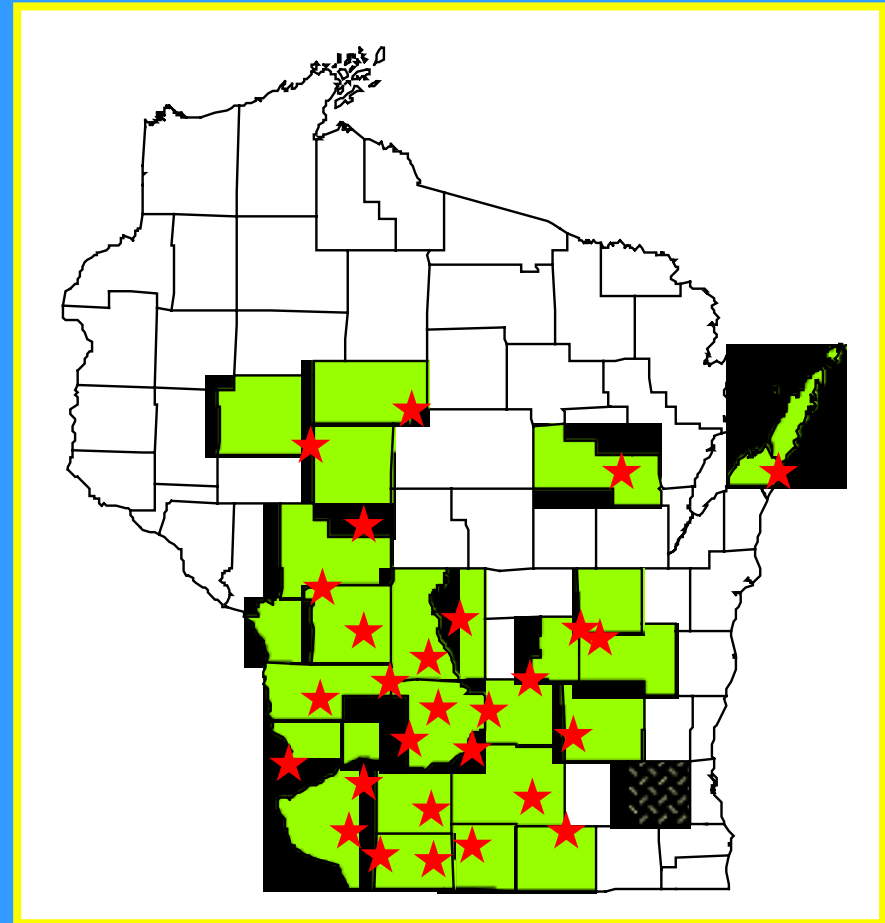
# I-R ural View: Impact Of Medicare S hortfall?



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## Brief Introduction Of RWHC

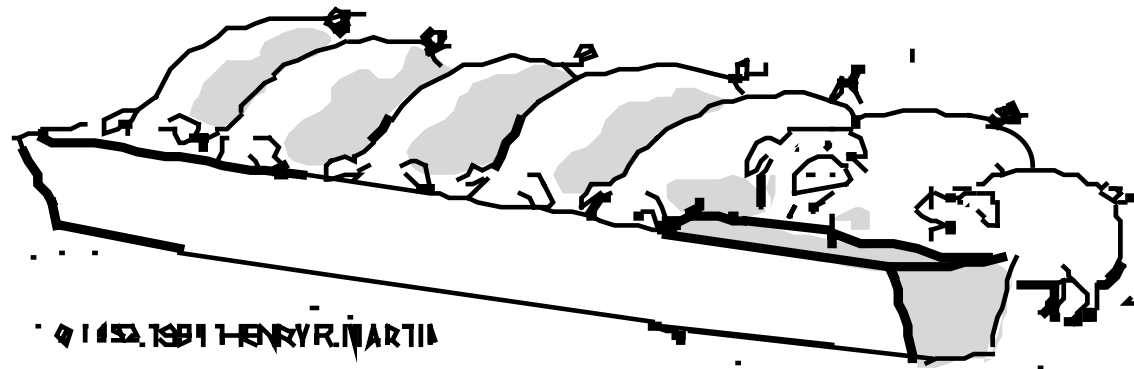
- RWHC begun in 1979 for advocacy and shared services. Hybrid of association and provider network.
- Cooperative owned and operated by 28 diversified rural hospitals. Combined budgets = 500 million; 2,000 hospital & nursing home beds.



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# Shortfall: Legacy Of Anti-Pork Tradition

## RWHC - Eye On Health



"Do they know that the big ones go to market first?"

# Shortfall: WI Urban Bad, WI Rural In Cellar

## Medicare Payments Per Enrollee in 1998



Data: Medicare Statistical Supplement for 2000, Released 9/01

Graph: RWHC 9/01

## \$1 Billion Annual Wisconsin Medicare Shortfall

Medicare CY 1998	Rural WI Enrollees	Urban WI Enrollees	All WI Enrollees
# Enrollees	236,000	482,000	768,000
Payment/ Enrollee/Year	\$3,694	\$4,361	\$4,108
(Loss) Compared To USA Avg. = \$5,299	(\$1,605)	(\$938)	(\$1,191)
(Loss) To WI	(\$459M)	(\$452M)	(\$911M)

Data: *Medicare/Medicaid Statistical Supplement, 2000*

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# Impact Of Medicare Shortfall Hits Us All

Patients  
Community  
Employers  
Payers  
Healthcare:  
Workers  
Professionals  
Hospitals  
Clinics

## RWHC Eye On Health



"Don't ask me why, but our national policy is that we pay you less the more a community needs you."

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# Rural Health = Major Local Economic Impact

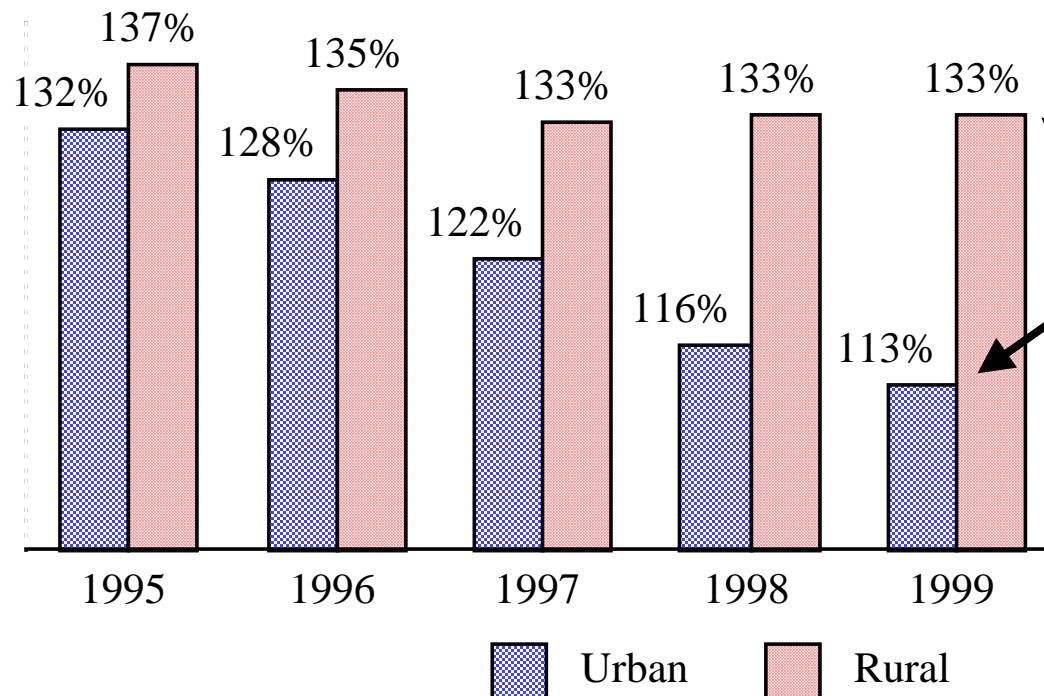
- \$1 health care revenue ➡ \$1 additional local revenue
- 2 health care jobs created (or lost) ➡ 1 additional local job gained (or lost)
- \$1 dollar of personal income created by health care industry ➡ 30 cents more local personal income.
- Employers increasingly report making decisions about plant location based on local health care costs.

Data: "The Economic Value of the Health Care Industry In Sauk County, Wisconsin" by Albert Lanier and Ron Shaffer, Center for Community Economic Development, U.W.-Extension.

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# Cost Shift Hitting Rural Private Payers Harder

## Government Shortfalls Drives Escalating Rural-Urban Costshift Differential For Payers In The Private Sector



Data: Private Payer Hospital Payment To Cost Ratios

Source : MedPAC Rural Report To Congress, 6/01

Graph: RWHC, 4/02

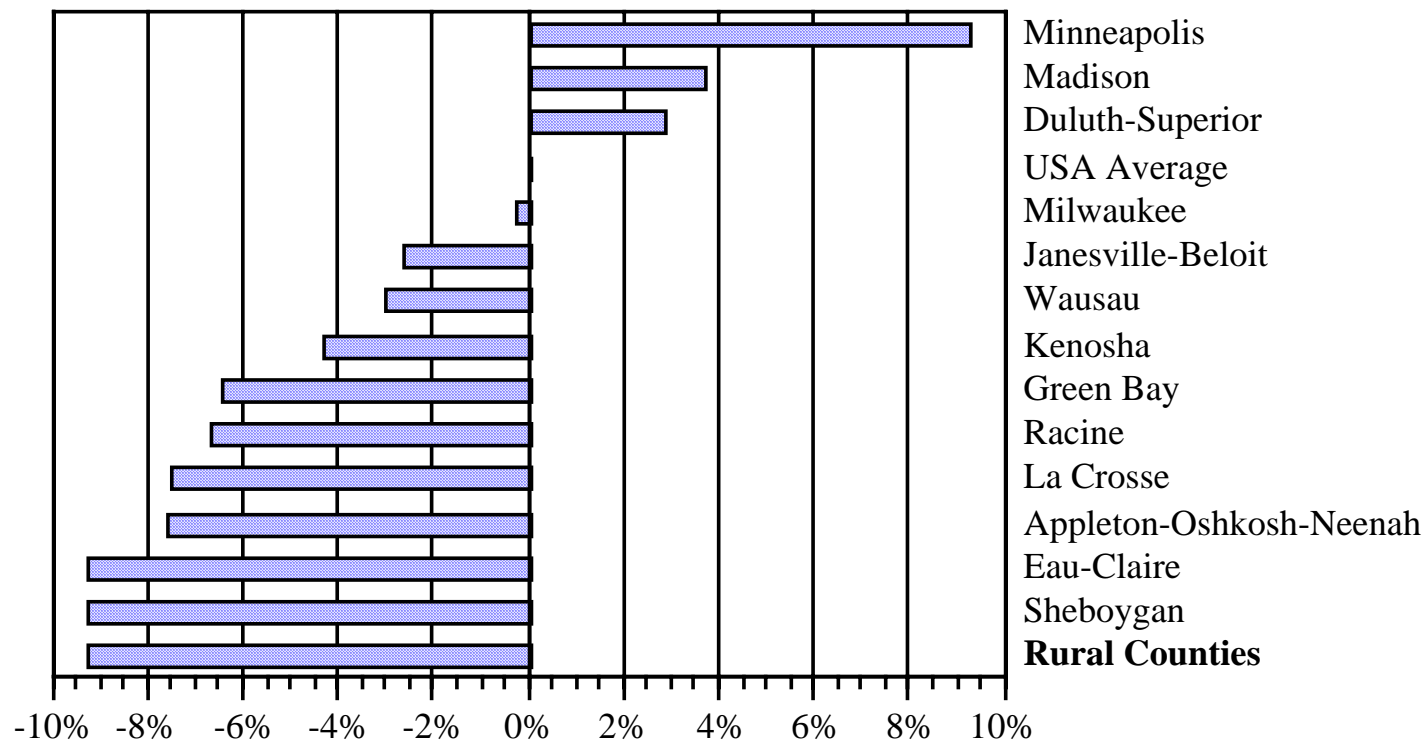
Rural  
Asked To  
Absorb A  
Cost Shift  
2 1/2 Times  
Larger  
Than  
Urban

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# Medicare Wage Index Self-Fulfilling Prophecy

## Wage Area Adjustment To 71% Of Wisconsin's Medicare Payment

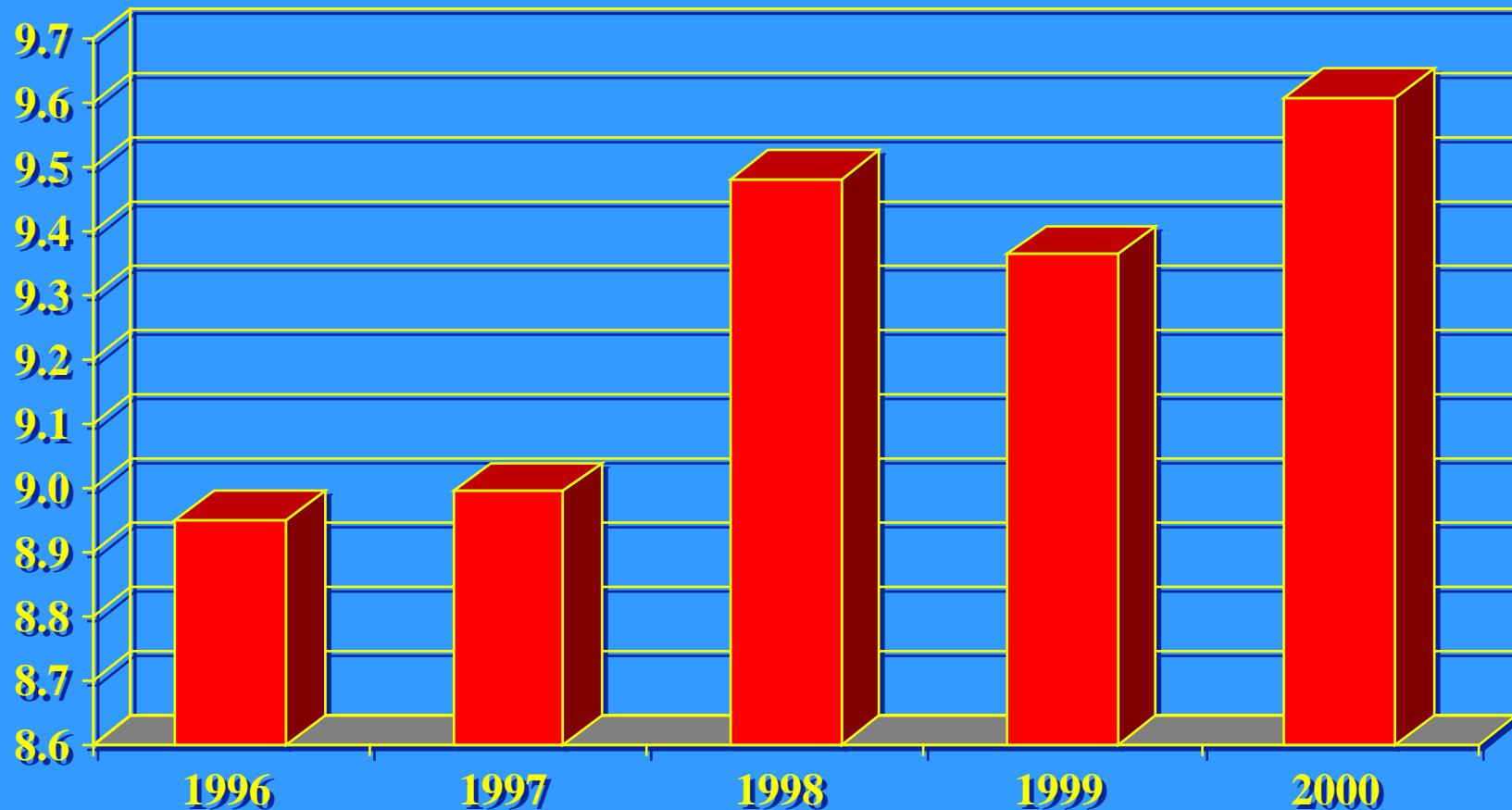


Data: Federal Register, 8/01

Graph: RWHC, 4/02

# Chronic Shortfall Undermines Infrastructure

RWHC Average Age Of Plant

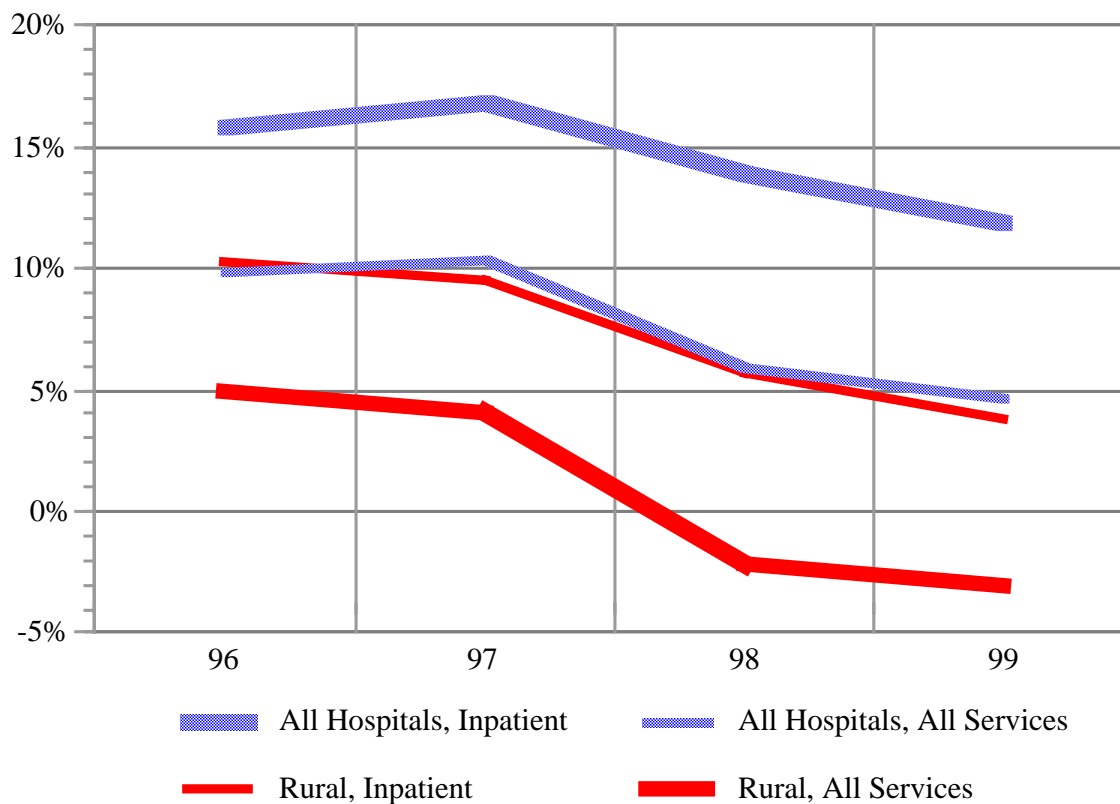


Data: Annual RWHC Member Survey

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# Aggregate Data Conceals Rural Reality

**Aggregated Medicare Margins Drives Most Debate  
But Rural Hospital Margins Are A Different Reality**



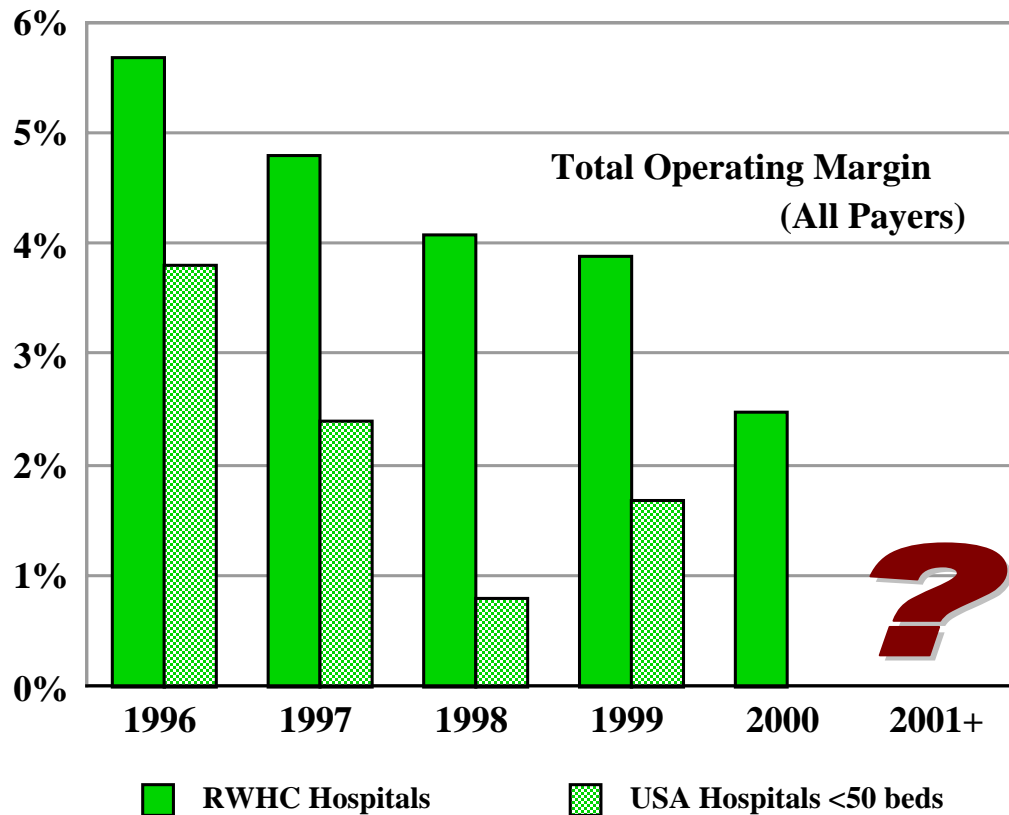
Data: MedPAC, 3/02  
Graph: RWHC, 3/02

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# RWHC Bottom Lines Increasingly Negative

Medicare enrollees typically constitute over 50% of a rural hospital's costs.

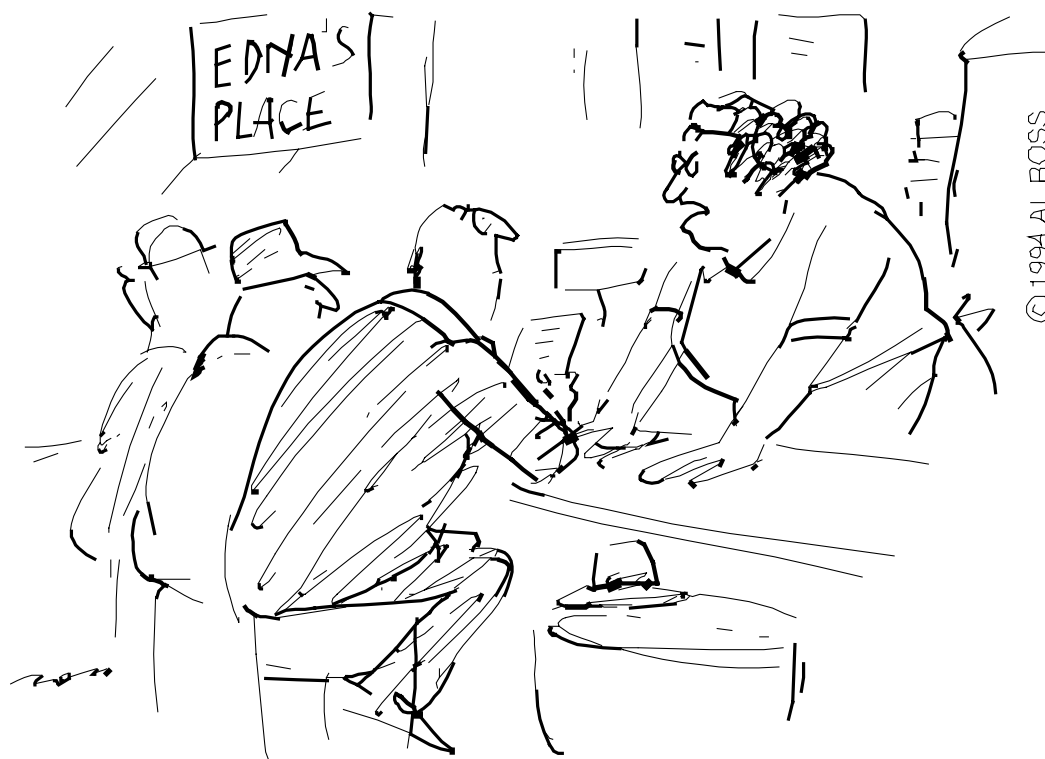
**RWHC Hospitals Being Dragged Down By Medicare**



USA Data: *MedPAC Report To The Congress*, 3/02

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## RWHC Eye On Health



"You only got money for my daily special  
or your heart medicine?--Tough call."

In The End  
It Is Still  
About  
Serving  
Joe

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## II-R ural View: Solutions To Medicare Shortfall?

### RWHC Eye On Health



"To paraphrase Winston Churchill about Americans in World War II, Medicare always tries to do the right thing after trying everything else."

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# Proposals To Improve Rural Medicare Payments

- Wage Index Reform (Mr. Quinn Addressed)
  - Fully Implement Occupational Mix Adjustment
  - Reduce % Payment Adjusted By Wage Index
- Create One National Base Rate (Mr. Quinn Addressed)
- Rural Community Hospital Assistance Act

## Recap: Medicare Failing Small Rural Hospitals

- Rural hospitals with fewer than 50 beds have seen total Medicare margins decline precipitously, falling to an average of negative 5.4 percent in 1999.
- While special reimbursement is available to certain rural hospitals today, it is limited. The Medicare Payment Advisory Commission (MedPAC) observed in its June, 2002 Report to Congress that the current Medicare prospective payment DRG system is simply not working for small rural hospitals.

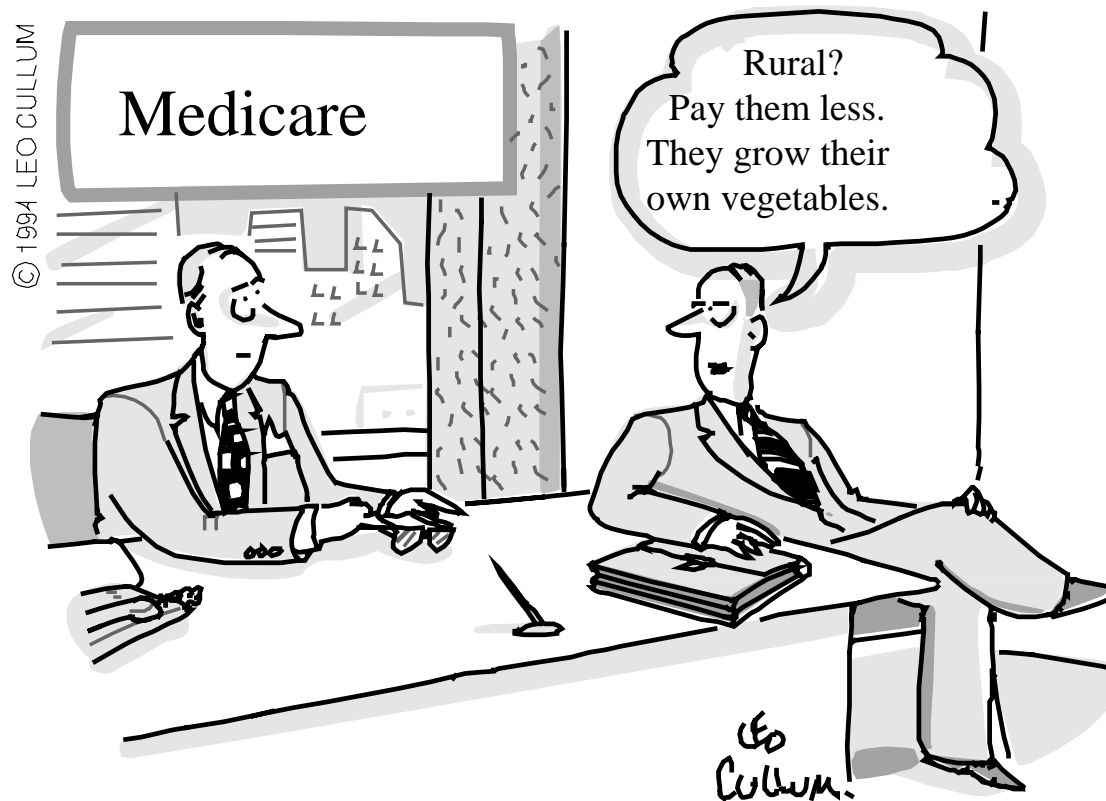


# Critical Access Hospital Program (CAH) Helping

- 21 rural WI hospitals are now classified as 'critical access' hospitals (CAHs); ± 12 more in pipeline.
- Under 15 beds and average stay < 96 hours.
- Receive Medicare payments based on allowable costs for inpatient and outpatient services (only).
- The federal definition of allowable costs is about 90% of what accountants typically define as costs & nothing paid towards ongoing program/facility development or towards the uncompensated care of other patients.

# Rural Shortfall Result Of Ongoing Biases

## RWHC Eye On Health



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# Rural Community Hospital Assistance Act (RCH)

- On April 18, Representatives Jerry Moran (R-KS) and Jim Turner (D-TX) introduced HB 4515, with 19 original cosponsors, including WI's Ron Kind & Tom Barrett.
- Provides enhanced cost-based reimbursement for critical access hospitals & extends it to post-acute care services.
- Provides option for other rural hospitals < 50 inpatient beds to receive enhanced cost-based reimbursement for inpatient, outpatient & limited post-acute care services.

## 1st: Focus Update To Existing CAH Program

- Continues providing cost-based reimbursement for inpatient and outpatient services.
- Add a 'return on equity' to addressing technology and infrastructure needs.
- Extends enhanced cost-based reimbursement to post-acute care services, including skilled nursing facility, and home health.
- Permits and extends enhanced reimbursement to geriatric psychiatric care and rehab (10 bed limit).
- Eliminates the current 35-mile test for hospital based ambulance services.

## 2nd: Focus Rural Hospitals > CAH & < 50 Beds

Many rural hospitals are too large to qualify for CAH status but too small to absorb the financial risk associated with PPS programs. The Rural Community Hospital Assistance Act would allow rural hospitals with 50 or fewer acute care beds the option of receiving Medicare payments based on reasonable costs plus some limited margin for technology and infrastructure needs. This would help approximately 30 rural hospitals in Wisconsin.

## Changes E ffecting Other Hospitals <50 Beds

- Cost-based reimbursement for inpatient and outpatient services, including a provision for 'return on equity.'
- Cost-based reimbursement for home health services if the hospital is the sole provider of these services in the area.
- Cost-based reimbursement for ambulance services.
- R estore Medicare bad debt payments at 1 00 percent.

## Cost Of A Targeted Rural Solution

- For CAHs, the price tag for FY 2002 through 2006 if the legislation can be passed is a manageable \$500 million.
- For RCH impact on other hospitals < 50 beds, the price tag is \$1.5 billion over five years (< 1/3 of one percent of total annual Medicare spending.) Wisconsin is estimated to gain \$79 million from FY 2002 through 2006, third from the top in total benefit after Iowa (\$114 million) and Texas (\$109 million).

# Wisconsin Leadership Can Make A Difference

## RWHC Eye On Health



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